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9 September 1986

MEMORANDUM FOR: Deputy Director of Central Intelligence

SUBJECT: PFIAB

1. You're scheduled to attend a PFIAB meeting tomorrow from 1000 to 1200. You've been asked to address [] the new Contra support package and our strategic view of the drug situation in Latin America and the Caribbean. You will be accompanied by []

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2. During the day, the board will also hear from Pete Aldridge on launch issues (just before your appearance), and Deputy Secretary Whitehead and DEA Administrator Lawn on their views of the drug problem. The board will also get damage assessments from the Navy and NSA on the Pollard and Pelton cases.

3. After your opening remarks, [] will address the above-mentioned subjects. They have been told to prepare 20-30 minutes worth of remarks and to leave time for Qs and As.

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TAB A Draft comments [] scope of drug problem, ties to insurgencies, and foreign involvement.

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TAB B Draft comments [] on broader economic and political impact of drug problem in the major producing nations in Central America.

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Talking Points
The Drug Problems in Latin America and the Caribbean
A Strategic Perspective

- o I would like to begin with some observations about the drug trade in Latin America and the Caribbean that are likely to pose increasing problems for US interests in these regions during the next few years.

The Cocaine Trade

- o The cocaine trade and the powerful trafficking organizations that control it--primarily the Colombians--will remain the most important drug force throughout the region for the foreseeable future.

--We estimate last year's coca harvest in South America was between 140,000 and 200,000 metric tons of leaf, or about one metric ton per hectare cultivated. Peru, Bolivia and Colombia are the major producers, but coca fields have also been found recently in Brazil, Ecuador, and Venezuela.

--Of the major source countries, Peru grew enough coca last year to produce just under 100 metric tons of cocaine; coca grown in Bolivia could have produced about 80 tons of cocaine; and coca leaf grown in Colombia could have produced about 25 tons of cocaine.

- o Traditionally, Colombia has been the primary location for processing coca base and paste from Peru and Bolivia into

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- cocaine; Colombian traffickers also dominate worldwide cocaine distribution networks. Since the late 1970's Colombian traffickers have formed cartels--the "Medellin Cartel" is undoubtedly the most powerful and infamous--responsible for controlling the flow of base and paste into Colombia, cocaine processing, and at least the first level of distribution.
- o All of this began as an attempt to counter the power of Bolivian and Peruvian paste and base brokers and increasing demands of independent processors and pilots. Competition among Colombian cartels has been all but eliminated and consolidated shipments, financial structures and overall cooperation are the norm; they even pool resources to insure mixed cocaine shipments against loss.
 - o But the dynamics of the cocaine trade are changing and this will continue for the next few years. Because of the cocaine glut on the international market, enforcement efforts against cocaine labs, and a reduction in the availability of precursor chemicals--primarily ether--Bolivian and Peruvian traffickers are becoming more involved in cocaine processing and distribution, and trafficking patterns also are being established in new areas including Argentina, Venezuela, Ecuador, Mexico and the US.
 - o Colombian cocaine cartels have not been idle as all of this has unfolded, and a case can be made that they have

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- had a heavy hand in charting the course of recent developments. Colombian organizations now operate independently in Peru and Bolivia and also have transnational links with major trafficking organizations in these countries and elsewhere, particularly Mexico.
- o The stage also is set for the "crack" epidemic to further alter the cocaine trade. Since "crack" is essentially coca base, traffickers throughout coca producing countries could attempt to buy into this marketing phenomenon by shipping more base into the US, thus eliminating the need for ether and more sophisticated cocaine labs.

The Caribbean

- o Increased enforcement pressure on traditional smuggling channels through the Caribbean has forced traffickers to develop new routes that have drawn more island nations into the drug trade than ever before.
- o The Jamaican Government has thus far made substantial gains in its heightened effort to disrupt marijuana production and trafficking. We estimate that last year growers harvested about 900 metric tons of marijuana or roughly half the amount they harvested in 1984. But Jamaica's long-established role as the Caribbean's only significant producer of marijuana for the US market created the trafficking infrastructure that has led to the emergence of Jamaica as an important transit point for cocaine. Although Colombian organizations spurred this

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development, Jamaican traffickers are now claiming a larger role.

- o The size and frequency of drug seizures in the Cayman islands also increased in 1985, as did visits to the islands by known traffickers.
- o Haiti and the Dominican Republic increasingly are serving as transshipment points for drugs destined for the US. Well organized trafficking networks controlled by Colombians, Jamaicans and US citizens now operate frequently out of these countries. Most drugs transiting Haiti are carried by ship and the Dominican Republic has been linked most to air smuggling.
- o There has also been an upsurge in trafficking through the Lesser Aentilles, an area poised for further drug problems.

--Drug shipments from Colombia increasingly are transshipped through Aruba and Curacao.

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Martinique and Guadeloupe now serve as transit points for cocaine destined for Canada, Europe and the US.

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-- Barbados have repeatedly expressed alarm over the island's growing role in the drug trade; and influx of cocaine is the greatest concern.

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--Recent drug seizures indicate Antigua is being used by Colombian traffickers to ship cocaine and

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marijuana to the US and Canada.

- Trinidad and Tobago's involvement in the international drug trade has increased sharply since the early 1980's and the two-island nation now is an established trafficking gateway to the Eastern Caribbean. Drug abuse is on the rise and, in addition to widespread police corruption, the drug trade is responsible for increased imports of illegal weapons.
- Despite these developments, the Bahamas will remain the most important drug transit in the Caribbean area for the foreseeable future.

Central America

- o Narcotics traffickers traditionally have used Central America as a transshipment/stopover point for South American drugs bound for the US. The drug trade in Central America has flourished during the past several years and drug production, refining, and trafficking may be on the rise throughout the region.
 - Law enforcement agencies in Costa Rica, El Salvador, Guatemala, and Honduras reportedly have been making many small but significant marijuana and cocaine seizures as well as confiscating processing materials and laboratories.
 - Marijuana cultivation reportedly was up in 1985 in Belize, Costa Rica, Guatemala, and Panama.

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--Aerial reconnaissance shows relatively large opium poppy field in Guatemala, 25 miles east of the Mexican border.

- o Panama will remain a vital link in the Central American drug trade both as a money-laundering center and as a transit point for US-bound cocaine and marijuana. The Colon Free Trade Zone offers unique advantages for drug operations and trafficking through Panama's airports, and ports outside the Free Zone also is commonplace.
- o Of all the drug problems facing the US today, Mexico is one of the most serious, and things are likely to get worse. Mexico's drug control program is in trouble, and there has been a marked increase in recent years in the volume of drugs being produced in or transiting Mexico.

--Opium production for processing into heroin has risen from about 17 tons in 1983 to some 47 tons in 1985 according to CIA estimates. DEA estimates of Mexican opium production are based on heroin seizure data and are somewhat lower. DEA does concur, however, that since 1983, opium availability in Mexico has risen markedly, and DEA judges that last year Mexico accounted for about 39 percent of the heroin reaching the US.

--Our knowledge of Mexican cannabis cultivation for processing into marijuana is thin because information is sketchy and harder to corroborate. DEA has estimated, based on seizure data, that

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output has increased from 1300 tons in 1983 to as much as 3500 tons in 1985, and that Mexican marijuana producers last year were responsible for about 27 percent of the foreign-produced supplies of this drug reaching the US.

--Even at its best in the late 1970s and early 1980s, Mexico's antidrug program never threatened Mexico's role as major drug-producing country; there is little hope that future antidrug programs will fare any better. And there is every reason to believe that the Mexican cocaine connection will increase in the years ahead.

Drug-Related Instability

- o Our concerns about drug-related instability in Latin America and the Caribbean are focused on four issues:
 - Powerful trafficking organizations can corrupt and undermine political, economic, social, and security institutions within democratic nations.
 - Some insurgent groups are heavily involved in trafficking and others have the opportunity, motive, and capability to participate in the drug trade.
 - There are reports of sporadic involvement between some terrorist groups and drug traffickers.
 - Some sovereign states such as Cuba and Nicaragua support or at least condone international drug

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trafficking.

- o I'd like to comment on the later three issues and

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will address the impact that trafficking organizations can have on democratic nations in the region.

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Insurgent Involvement

- o In Colombia, we believe that three insurgent groups have varying degrees of involvement in the drug trade.

--The largest and most formidable of these is the Revolutionary Armed Forces of Colombia (FARC). It has guerrilla "fronts," and about half of these operate in coca and marijuana area. There is evidence that one such front was established in southeast Colombia expressly to earn profits from coca production. The FARC also trades drugs for guns with organized criminal smugglers; exacts fees from traffickers for use of FARC-controlled territory; and taxes coca producers in its strongholds.

--Two other much smaller insurgent groups in Colombia, the National Liberation Army (ELN) and the Popuplar Liberation Army (EPL), may also extort money from coca growers, and engage in some marijuana growing and trafficking, although probably at a less organized level than the FARC.

- o Also in Colombia, the 19th of April Movement (M-19)--which

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- conducts much of its activity as an urban terrorist organization but has formed several rural units--in October 1981 used the drug-smuggling apparatus of a major Colombian marijuana trafficker to bring a large shipment of weapons into Colombia. More recently, an M-19 special force unit Bogota was sent to the Ecuadorean border to work with cocaine traffickers to earn money for the M-19.
- o In Peru the Sendero luminoso (SLO), a Maoist insurgent/terrorist group based primarily in Ayacucho region of Peru, extorts money from traffickers operating in its territory, which is one of Peru's largest coca growing regions. But to date, we have no reliable evidence that SL's involvement in narcotics as yet is more extensive than this [REDACTED]

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- o In Central America:

-- [REDACTED] claim that money earned from marijuana cultivation on both sides of the Guatemala-Belize border supports Fuerzas Armadas Rebeldes (FAR) guerilla activity in Guatemala with the purchase of arms, medicine and other supplies. [REDACTED] in Guatemala also reports that a FAR unit is growing marijuana which it sells in Belize to purchase arms.

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[REDACTED] that a major trafficker in Belize has smuggled arms to El Salvador through

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Guatemala.

--In 1984, [] that the People's Revolution Army (ERP) in El Salvador was cultivating marijuana as a cash crop, and Salvadoran officials recently confiscated cocaine from a Salvadoran trafficking group with alleged ties to the M-19.

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Cuba's Role in the Drug Trade

o Cuban authorities have aided selected drug traffickers since the 1970s. In most cases, this involvement has entailed permitting these traffickers to use Cuban land, water, and air space to avoid US interdiction efforts. Cuba is probably used as a transshipment point for some Colombian drugs bound for the US.

--We also have some evidence that Cuba has in the past assisted, and may continue to assist, selected traffickers by laundering drug profits. Sources have reported that Havana views its services to traffickers as a way to obtain hard currency.

--But we judge that Cuban involvement with traffickers is part of a broader trend toward closer cooperation between Havana and various elements of international smuggling organizations to further Cuban policy aims. In at least one instance, for example, Cuban involvement was aimed at facilitating arms shipment to the Colombian M-19

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terrorist group by using well-established drug-smuggling networks.

- o Although we cannot quantify the amount of money Cuba earns through drug trafficking, we are concerned that it could be used as a fund to support intelligence operations or subversive activities. If Cuba were to put out a general welcome mat for any substantial fee, payable in hard currency, the financial gains would probably be considerable and could help finance Cuba's subversive activities and friends in the region.

--At the same time, it would give Cuban officials and agents greater access to smuggling apparatus that could be used to ship arms and material or infiltrate subversive agents.

--At present, we judge that Cuba will continue to deal only with selected major traffickers, who are less likely to be apprehended and who have international resources and connections that are useful to Havana.

Nicaraguan Involvement

- o High-level government officials in Nicaragua conspired with Colombian drug traffickers on at least one well-documented occasion in June 1984 to smuggle cocaine into the US. The Minister of Interior and a subordinate were directly involved. Other reporting, buttressed by Drug Enforcement Administration evidence, indicates that

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Minister of Defense Humberto Ortega (and probably other members of both the ruling Sandinista National Directorate and the Junta) is at least aware of such involvement in the drug trade.

--Reports linking Nicaraguan officials with schemes to smuggle drugs, however, have appeared since March 1981.

--Although we cannot discount Nicaragua's interest in using drug-smuggling networks to facilitate supplying arms and material to its clients in the region, its main interest in drug smuggling appears to access to hard currency; some may be diverted for personal use.

--The flexibility and tenacity of the Colombian drug smugglers and the lucrativeness of the operation could result in additional attempts by them to use Nicaragua as a transshipment point.

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9 September 1986

The Narcotics Trade and Latin America
PFIAB Talking Points
10 September 1986

Latin America's multibillion-dollar international narcotics trade poses a threat for US security interests because the economic power of trafficking organizations can undermine the political, social, and security institutions within democratic nations.

- It already poses serious socioeconomic problems for Mexico, Colombia, Bolivia, and Peru, the major focus of this briefing.
- Other countries now benefiting from the narcotics trade--and vulnerable to its debilitating influence--include Panama, Jamaica, The Bahamas, Belize, Ecuador, Paraguay, Brazil, and Venezuela.

The clandestine nature of the drug trade makes precise estimates of its economic size impossible, but a review of intelligence publications indicates that it has become a sizable economic force in Latin America.

- The estimated value of illegal drugs produced in Bolivia, Colombia, Jamaica, Mexico and Peru ranged from \$2.9 to \$6.6 billion in 1983, even before the astronomical markups in drug values on the street.
- Using the \$6.6 billion as a yardstick, Latin America's narcotics revenues were equivalent to 1 percent of the region's GDP, and 7.5 percent of total legal exports. If these revenues were used to repay debt, they would lop off 2 percent of the region's \$340 billion outstanding obligations. In 1983, narcotics revenues exceeded by 220 percent the estimated \$3 billion in New Loans to the region.
- The economic impact of the narcotics industry on the major producing countries is even more dramatic. For example, Peru's cocaine industry generated an estimated \$700 million to \$1.6 billion in licit and illicit drug revenues in 1983, equivalent to as much as 9 percent of its GNP and 54 percent of its legal exports. The rapid expansion of Jamaica's marijuana industry from a cottage enterprise has increased its economic role to 13 percent of GDP and 73 percent of total exports.

A review of the intelligence literature indicates that the vast economic power of the drug traffickers threatens democratic government by

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corrupting its political institutions, making control of the national economy difficult, and undermining social mores.

- These threats are at work in all major producing countries, but there are important variations best explored by case studies.

The current Mexican narcotics threat

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is one of the most serious because powerful traffickers have undermined government control efforts at a time when Mexico City has been distracted by serious political and economic problems.

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- The marked increase in the volume of illicit drugs being produced or transiting Mexico for delivery to the United States since 1982 has followed in the wake of a 6 percent decline in average per capita income, a 67 percent average annual inflation rate, a 6.1 percent official urban unemployment rate, and a net transfer of some \$29 billion in profits and interest payments abroad.
- We suspect that Mexicans have turned to drug-crop cultivation to supplement their living standards. We know that the high profits from narcotics trafficking have cushioned some regions from economic decline, notably the area around Culiacan in Sinaloa state.
- Beyond this, the drug traffickers have used their booty to methodically corrupt substantial numbers of antidrug officials below the Cabinet level. Simultaneously, they have stepped up intimidation and violence against those officials who resist making a deal.
- We judge that the Mexican drug trade's influence on and manipulation of Mexico's domestic affairs appears limited solely to facilitating and protecting narcotics operations and associated crimes--money laundering and illicit arms. There is no evidence to suggest the drug trade might eventually become a force for political activism.
- However, improving the control program could draw violent reprisals from some major traffickers while the economic and social changes necessary to decimate the drug trade could, in our judgment, lead to high levels of violence and social turmoil but not of sufficient severity to threaten Mexican political stability.
- believe that at least some traffickers--with paramilitary capabilities--would confront authorities if faced with a serious threat, while the response of the public in some sectors could also be violent because of the economic benefits traffickers dispense.

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[redacted] the fate of Paz

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Estenssoro's heroic efforts to get Bolivia's democracy back on track will depend critically on narcotics control. They state, "the economic power of the drug traffickers...the dependence of Bolivia's economy...on the influx of narcodollars for stability, and the narcotics trade's capacity to corrupt government and society are sobering."

- The sheer dimensions of the narcotics problem, [redacted] are almost overwhelming.

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- In 1985, cocaine growing and trafficking was the only thriving industry in an economy wracked with a 22,000 percent inflation rate, unemployment above 35 percent, and a drop in income of 5 percent for every man, woman, and child in Bolivia.
- The industry provided employment for an estimated 30,000 farm families that were able to earn as much as 8 times the average annual income available in tending licit crops. Parts of the Yungas and Chapare regions are turning to coca monoculture, and the most recent UN statistics indicate that value added in Bolivian agriculture had declined 24 percent to \$510 million between 1981-83.
- The estimated \$500-600 million of narcotics money that returns to Bolivia is integral to the economy. It creates perhaps 80,000-100,000 related jobs, sustains the import of luxury goods at a time of serious debt problems, funds new construction and real estate projects, and provides capital for a host of legitimate businesses.
- Drug-related violence is high and addiction rates as well, and drug-related corruption is extensive throughout the body politic.
- Traffickers' enormous financial power has corrupted drug control enforcement and interdiction programs and pervades the judiciary system, which is reluctant to prosecute dealers.
- Although Bolivia's traffickers are closely linked to the elite, the cocaine constituency--farmers, middlemen, public officials, service workers--are a political force to be reckoned with. [redacted] has recently warned that, "If Operation Blast Furnace (the recently launched frontal attack on cocaine production and trafficking) fails to produce results that we and most Bolivians want and anticipate, it would become the point of a lance behind which a wide variety of the government's enemies concentrate their force."

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- The influence of drug dealers peaked in 1980-81 when General Garcia Meza was funded by cocaine traffickers and the Interior Minister ran a cocaine network. In the Siles government officials at the Cabinet level, his own advisers, high-ranking military officers, and those administering antinarcotics programs were also on the take.
- Reporting in 1984 indicated drug traffickers tried to exert influence on Bolivian politics by funding presidential campaigns, and 2 corruption remains a major problem [REDACTED]

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The Peruvian drug trade [REDACTED] is a dynamic industry that exerts a powerful economic and political influence throughout the country.

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- Coca--which has been cultivated for more than 3,000 years--according to archeologists has expanded from a small legal industry in the 1970s into a major illegal business that employs thousands of Peruvians in cultivation, production, and trafficking of the leaf and its derivative products--coca paste, base, and cocaine hydrochloride.
- Drug usage is staggering. Some 3 million rural Peruvians chew coca leaves daily, roughly 16 percent of the population. In Lima alone, an estimated 100,000 inhabitants, including 14,000 school children, now smoke cigarettes laced with coca.
- In some regions, the coca industry is the dominant employer, and drug traffickers use violence and corruption to blunt government authority.
- For example, the Upper Huallaga Valley in central Peru, the source of half of the coca leaf crop, personifies the evil coca empire. The valley's inhabitants take good care of their coca fields, using fertilizers, herbicides, and better propagation techniques to boost yields. Once a sleepy jungle village, Tingo Maria, the region's drug city, now bursts with energy and newfound wealth manifest in luxury goods and new businesses. Some legitimate crops--tea, yucca, citrus--are cultivated but cannot compete with the economic benefits of coca cultivation which yields 10 times the income per planted hectare. Drug dealers routinely use their profits to purchase official protection for their operations and are seldom arrested or convicted.
- Peru's military fears that poorly paid enlisted men and officers will fall prey to payoffs that accompany involvement in narcotics enforcement.

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- President Garcia cites financial constraints imposed by \$14 billion external debt, unfavorable terms of trade for Peru's major exports, and an economy that has contracted by 6 percent since 1983 as major impediments to drug control enforcement operations and land reform and crop substitution policies.

The drug trade [redacted] has profound influence on the Colombian economy and political institutions.

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- Illegal earnings from cocaine and marijuana probably represent at least 4 percent of GDP. Some \$400 million to \$1.6 billion of illegal drugs are produced or processed annually, translating into a street value--and gross trafficker income--of \$7.6 to \$30.4 billion.
- Less than 5 percent of these revenues return to Colombia--via smuggled currency, goods, and gold, fraudulent invoicing of exports and imports, or through "tourist" earnings--but they support a variety of legitimate businesses, ranging from legal firms to retail fronts, and a large informal economy which employs more than 100,000 workers in contraband markets in 30 cities.
- The influx of narcodollars has benefited Colombia's international reserve position, but it has also imposed serious costs on the country's economic development. For example, the vast illegal economy is outside the taxing power of the government and smuggled goods undermine the development of domestic industry. Drug money, which may have accounted for as much as 16 percent of the legal money supply in the late 1970s, has fueled inflation and makes the economy vulnerable to sudden disruptions in servicing the \$14 billion external debt in the event that drug capital flees the country.
- The economic power of Colombian drug barons also reverberates through the political system. Intimidation and corruption has seriously weakened the judicial system, and narcotics control. Judicial officials face a continuing threat of assassination from drug traffickers. Although public concern over rising domestic drug abuse is rising, drug money is funneled into campaign coffers to buy political influence, as well as media campaigns aimed at undermining public support for government extradition and eradication efforts.

Illegal drug production and cultivation is also corrupting political systems outside the major producing countries in Latin America.

- In Paraguay, the dramatic increase in drug trafficking has been made possible by the complicity of high-ranking civilian and military officials.

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- Drug-related violence is increasing throughout the Caribbean, a trend likely to continue given rampant corruption and weak legal systems.
- For example, Jamaican marijuana--once a cottage industry--has shifted into large-scale export production destined to the US accompanied by growing drug abuse, violence and corruption. In The Bahamas about one-third of those aged 15 to 40 use cocaine and drug-related corruption has become a partisan political issue and tarnished the country's international image.
- In Belize, the decline of sugar exports and profits from traditional farming have nurtured marijuana as a new cash crop. [REDACTED] concluded, "Those in the illegal drug trade come from all sectors; many own legitimate businesses, and have considerable political influence." 25X1 25X1
- In Venezuela, a congressional investigation indicated that cocaine trafficking was a \$1 billion business--equivalent to the value of its non-petroleum exports--and was contributing to pervasive official corruption.
- Brazil's drug traffickers and producers contribute to a large informal economy, tax evasion, and growing street crime in the country's major urban areas including Sao Paulo and Rio de Janeiro.
- Ecuador, both a coca producer and a land bridge for traffickers, has witnessed a growth of corruption of law enforcement and judicial officials that seriously impedes antinarcotics control.

The threats to US security interests from drug trafficking are numerous and complex. They include:

- Governments that are unwilling or unable to cooperate with US counternarcotics efforts and those that do not control key drug-trafficking areas, elements of its own judiciary, its military, or bureaucracy.
- Traffickers that use the media, their influence with public officials, and associations with key opinion makers to arouse public opinion against narcotics control.
- Corruption that undermines the integrity of democratic governments by reaching into the bureaucracy, political system, police, and security services, and spawns violence.

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- Vast underground economies that reduce the popular desire for change, undermine incentives to invest in traditional agriculture, deprive governments of development revenues, impede economic reform and diversification, leave financial management vulnerable to capital outflows, and subvert legitimate business.
- Social disruption manifest in rising societal violence, erosion of moral standards, disruption of family ties, and lower education and personal achievement resulting from mental and physical disabilities caused by rising drug use, both in Latin America and in the United States.

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